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MORTGAGE BANKING

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Frederick E. Flick

THE BIG FALL

*Trendsetters for
Real Estate
Finance in 1985*

Nineteen hundred and eighty five will go down in history as one of the banner years for the housing industry. New single-family home sales reached 687,000 units (639,000 in 1984) and existing single-family home sales set a record for the 1980s at 3,214,000 units—a 12 percent increase over the 1984 figure. Nevertheless, there were some soft spots in the industry last year even with the declining interest rates. For example, although single-family starts totalled 1,072,400 units, the 1984 figure exceeded 1,084,000. As a consequence, the total starts figure of 1,741,800 units did not perform up to the 1984 level of 1,749,500 units.

The omnipresent factor driving the 1985 housing market was the steady decline in mortgage rates that began about the middle of the summer. According to Federal Home Loan Bank Board figures, effective rates on conventional, 30-year, fixed-rate mortgage (FRM) loans at the beginning of the year were about 13 percent while

adjustable rate mortgage (ARM) loans carried average effective rates around 12 percent (See Table 1).¹ However, by July, these rates had begun to decline and effective rates on FRM product were less than 12.25 percent, with ARMs just more than 10.75 percent. By the end of the year, effective financing costs on fixed-rates and adjustables were below 12 percent and 10.5 percent, respectively.

During the past few years, declining rates have greatly stimulated the home resales and mortgage refinancing markets. However, the less obvious effects have been the shifts in the use of various types of mortgage instruments and the sources of the funds for these loans. The substantial fall in effective rates on 30-year, level payment loans stimulated their demand relative to that for adjustable rate mortgages and although the 1985 basis point declines in rates on ARMs were greater than those for FRMs, the use of adjustables dropped substantially in late 1985. Moreover, indications are that a large portion of the

substantial volume of lending, since the end of 1985, has been to refinance existing ARM loans with fixed-rate instruments. Furthermore, a result of the current relatively low interest rate environment is that more than a 150 basis point differential is now needed between fixed-rates and ARMs to make them close substitutes in the eyes of mortgage borrowers. However, many existing ARMs are working on their second and third adjustments and actually may be establishing new rates, which are just slightly higher than those currently offered on FRMs. Due to the uncertainty of future levels of mortgage interest rates, many of these ARMs may turn out to be better instruments in the long run.

Data sources for the housing and home financing market

Analysts of the housing and mortgage industry rely on a variety of data and information sources to track these markets. Most of the primary mortgage market data is provided through federal government surveys—the Federal Home Loan Bank Board (FHLBB) series on financing terms for conventional loans and the U.S. Department of Housing and Urban Development (HUD) survey of mortgage lending activity.² The Bureau of the Census also collects detailed information on the characteristics of mortgage loans, properties and property owners, however, it is collected as part of the decennial Census of Housing.³ As a consequence, its primary usefulness is in the periodic benchmarking of other series.

The FHLBB publishes monthly statistics based on closings and commitments in the first week of each month. These figures are reported for conventional, fixed-rate and adjustable rate first mortgage loans from institutional lenders. The financial terms reported include averages of the contract and effective interest rates,

loan-to-price ratio, fees as a percent of principal, term to maturity, loan amount and home purchase price. These figures are also provided for 32 metropolitan areas. These data are reported for savings and loan associations, mutual savings banks, commercial banks and mortgage companies as well as for all loans, fixed-rate loans, adjustables and for new and previously occupied homes. The FHLBB series also provides an estimate of the percent of adjustable rate loans closed at the beginning of that month.

The HUD survey data are published on a monthly basis with quarterly updates and an annual report as well. These data measure monthly, quarterly and yearly gross dollar flows of originations, repayments and sales of long-term mortgage loans. These flows are reported for one to four family, nonfarm homes and multifamily properties and they are cross-classified by conventional, FHA-insured and VA-guaranteed loans. Individual data elements are reported for the four main classes of primary market originators—savings and loan associations, mutual savings banks, commercial banks and mortgage companies—as

mortgages, etc.). While the series does provide relatively timely information on the sources of gross dollar loan flows by institution type, there have been many researchers who have wished the HUD series included as much detail on instruments.

There are several other important institutional publishers of mortgage financing information, including some of the major private and agency players such as Salomon Brothers Inc and Shearson Lehman Brothers Inc.,⁴ the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).⁵ Their published data usually focus on secondary market yields and spreads, mortgage-related security issuance volumes and mortgage prepayment rates. As such, the information provided from these sources is important for overall mortgage market monitoring and analysis, but it does leave knowledge gaps on the primary market side.

The residential mortgage finance panel data

In the data collection arena, the National Association of Realtors (NAR) is



well as life insurance companies, private noninsured pension funds, real estate investment trusts (REITs), federal credit agencies and state and local retirement funds and credit agencies. The survey also provides similar information for holdings of land and construction and long-term mortgage loans.

The HUD figures provide a necessary picture of the aggregate dollar volume of mortgage transactions in primary and secondary mortgage markets. However, they provide no information on the use of various types of loan note instruments (i.e., fixed-rates, ARMs, graduated payment

primarily known for its series on the number of units, dollar volume and prices of existing homes sold by NAR members. This series provides housing market analysts with important measures of market activity because the resale home market accounts for about 75 to 85 percent of annual home sales. However, during the past three years, NAR researchers have been obtaining sample data on the characteristics of the financing, property and borrowers involved in these transactions. The residential mortgage finance panel (Panel) provides this information on a regularly scheduled basis through brokers who are members of local real



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estate boards in medium- to large-sized metropolitan areas around the nation.

When the Panel was first established, executive officers (EOs) of more than 440 boards located in Census A and B strata Metropolitan Statistical Areas (MSAs) were asked to submit the names of expert residential brokers who would be willing to participate in a regularly reporting survey panel. Currently, the panel consists of about 2,000 brokers, representing virtually all of the 440 boards and three times each year, they are sent a questionnaire requesting fi-

ancing information on their two most recent residential closings. The response rate from individual brokers tends to be in the 22 to 25 percent range, with almost all respondents providing the requested two transactions. Approximately 425 to 450 responses are received in the one month period after the questionnaire is mailed, usually totaling about 850 transactions. This is a very good response rate for a mail-out panel, particularly because this questionnaire asks for detailed information that can only be obtained by referring to broker file records.

TABLE 1

Contract and Effective Interest Rates on FRMs and ARMs and Percent Adjustables: Conventional Loans Closed—Selected Months, 1982-1985 (Percentages)

Year/ Month	Fixed-Rate Mortgages		Adjustable Rate Mortgages		Percent of Loans with Adjustable Rates
	Contract Rate (%)	Effective Rate (%)	Contract Rate (%)	Effective Rate (%)	
1982					
July	14.95	15.53	15.08	15.69	43
August	14.98	15.55	15.18	15.76	46
September	14.67	15.19	14.58	15.23	44
1983					
March	12.85	13.29	12.47	12.91	30
April	12.37	12.82	12.26	12.68	29
May	12.46	12.92	12.03	12.48	29
August	12.43	12.89	11.76	12.18	33
September	12.65	13.13	11.95	12.41	45
October	12.46	12.94	11.83	12.26	50
1984					
May	12.44	12.96	11.20	11.65	62
June	12.60	13.09	11.33	11.80	65
July	12.90	13.46	11.54	12.03	66
September	12.98	13.47	12.01	12.49	66
October	13.13	13.67	12.07	12.57	64
November	12.89	13.41	12.04	12.53	60
1985					
January	12.54	13.10	11.58	12.05	50
February	12.42	12.93	11.23	11.69	46
March	12.39	12.87	10.92	11.37	49
April	12.35	12.90	10.84	11.29	50
May	12.41	12.94	10.85	11.30	52
June	12.14	12.63	10.66	11.10	56
July	11.79	12.23	10.31	10.76	53
August	11.64	12.14	10.13	10.56	52
September	11.54	12.02	9.90	10.32	49
October	11.63	12.12	10.00	10.41	50
November	11.50	11.99	9.94	10.36	49
December	11.41	11.88	9.81	10.22	48

Source: Federal Home Loan Bank Board News, Selected releases.

"The omnipresent factor driving the 1985 housing market was the steady decline in mortgage rates that began about the middle of the summer."



The most important contribution of the Panel is that it allows for in-depth cross-sectional examination of the mortgage financing techniques involved in home sale transactions. Also, it provides information on the financing used in actual home sales as opposed to the terms of lender offerings or commitments. Although the basic respondent frame is a "selected" sample (i.e., those brokers who were best known by EOs and willing to participate), the Panel seems to provide reasonable and consistent responses for most of the questions. Furthermore, the emphasis on the two most recent sales helps reduce any broker bias to provide information on favorite properties or instruments used to finance the purchase (i.e., "creaming" the sample).

The questionnaire allows brokers to report detailed information on the terms of up to three mortgage notes on a property, including the amount, interest rate and term to maturity. In addition, for the first two notes, the questionnaire requests information on instrument type, source/originator and type of insurance. In 1984, a detailed section on the features of ARM first mortgages was added because many ARM surveys focus only on lender offerings and, *a priori*, do not reflect which ARMs have actually been originated. There are also questions covering the basic characteristics of the property and the socio-

demographic profile of the buyer and seller. In 1986, several additional questions on the structural characteristics of the dwelling unit are being asked.

Weakness in the other available data series

The FHLBB publishes information on loan terms on conventional fixed-rate and adjustable rate mortgages in the marketplace and is the most frequently quoted source of information on the percentage of conventional first mortgages that are ARMs. By design, the instruments and financing sources in the FHLBB survey do not include FHA-insured or VA-guaranteed mortgages. Furthermore, the data ignore loans that are not fully amortizing, so that balloon mortgages are excluded. On the sources side, assumptions are not counted in the survey unless a lender "originates" them by changing the name of the borrower on the loan note. Seller financing is obviously not included, although it has not been a substantial factor in the market during the past couple of years. Some analysts also believe that it tends to oversample savings and loan associations and undersample mortgage bankers. If this is the case, the FHLBB survey has a more narrowly defined base than is generally believed.

The HUD survey includes conventional, FHA-insured and VA-guaran-

teed loans but does not provide any information on seller originations, assumptions or the types of mortgage instruments used. Nevertheless, it is the most comprehensive publicly available series on the dollar volume of originations, purchases and mortgage sales. It is particularly useful for measuring the conventional and FHA/VA market and the volume of loans sold in

secondary mortgage markets.

In 1985, the Panel data were collected during three periods covering late March to mid-April, late June to mid-July and late September to mid-October. The 1985 data base includes information on approximately 2,300 transactions. An analysis of the time trend of changes in mortgage sources and instruments is presented for the

TABLE 2

The Number of Mortgages Used in Home Financing (Distributions on the Percent of Transactions)

Mortgage(s)	Oct. 1985	Jul. 1985	Apr. 1985	Oct. 1984	Jun. 1984	Sept. 1983	Apr. 1983	Aug. 1982
First (only)	91	87	85	86	85	82	78	62
First and Second	5	7	9	9	9	10	11	20
First, Second and Third	*	*	*	*	1	1	2	3
Other (primarily cash sales)	4	6	6	5	5	7	9	15
	100	100	100	100	100	100	100	100

* Less than 1 percent.

TABLE 3

Trends in the Use of Various Types of Instruments

3(a) First Mortgage Instruments (Percentage Distributions on Instruments)								
Instrument	Oct. 1985	Jul. 1985	Apr. 1985	Oct. 1984	Jun. 1984	Sept. 1983	Apr. 1983	Aug. 1982
Traditional, Fixed-Rate Mortgage (FRM)	74	68	68	55	54	63	76	52
Adjustable Rate Mortgage (ARM)	20	25	23	34	36	22	10	10
Graduated Payment Mortgage (GPM)	1	2	2	2	3	5	4	4
Land Contract	1	1	2	3	2	2	3	9
Wraparound Mortgage	1	*	*	1	*	1	*	2
Short-term Mortgage with Balloon Payment	2	2	3	4	3	5	4	10
Other**	1	2	2	1	2	2	3	13
	100	100	100	100	100	100	100	100

3(b) Second Mortgage Instruments (Percentage Distributions on Instruments)								
Instrument	Oct. 1985	Jul. 1985	Apr. 1985	Oct. 1984	Jun. 1984	Sept. 1983	Apr. 1983	Aug. 1982
FRM	53	45	59	44	46	46	41	42
ARM	8	7	2	6	3	2	*	*
GPM	7	*	*	*	*	2	*	1
Land Contract	6	2	2	3	4	2	4	3
Wraparound	*	3	*	*	7	6	4	4
Balloon	23	35	32	43	37	37	50	42
Other**	3	8	5	4	3	5	1	8
	100	100	100	100	100	100	100	100

* Less than 1 percent.

** Includes equity participation mortgages.

"Due to the uncertainty of future levels of mortgage interest rates, many of these ARMs may turn out to be better instruments in the long run."



three periods in 1985, as well as for several collection periods going back to August 1982.⁶ Also, a detailed cross-sectional look at the 1985 sources and uses of various types of instruments is provided. However, for this analysis, the three periods in 1985 are combined into a single period to provide better overall estimates of the relative use of these instruments and sources.

The number of mortgages used in home financing

Since the summer of 1982, the use of just a single mortgage loan to finance a home purchase has been on the rise (See Table 2). During the housing recession, when interest rates on institutionally provided financing were in the 14 to 16 percent range, "creative" arrangements involving below-market second and third loans were used extensively to "blend" interest rates to help keep monthly mortgage payments down. The source of these loans was either an assumed existing lien or a newly originated loan from a seller who was "taking back" financing to facilitate the sale of his property at a higher price. At that time, junior mortgages were present in the financing packages in more than 20 percent of these sales. However, the decline of mortgage rates in early 1983 set the stage for a substantial change in the way future financing transactions would be structured.

By spring 1983, junior financing was present in less than 15 percent of sales and a single mortgage was used in more than eight out of ten home financing transactions. Due-on-sale enforcement by lenders had a major impact on assumptions. However, lender resistance to providing second liens or wraparound arrangements were also contributing factors. Furthermore, as mortgage money became more affordable, all cash arrangements declined in use to around 5 percent of all home sales. Throughout 1984 and into early 1985, second and third loans were involved only about 10 percent of the time, while single loan packages were used in about 85 percent of sales. In addition to the substantial decline in mortgage interest rates since last summer, the use of just a single loan in home financing is occurring in more than 90 percent of home purchases.

The use of first mortgage instruments

From summer 1982 to last fall, the relative use of traditional, level payment, fixed-rate mortgages increased 50 percent. In August 1982, FRMs were more than half of all first mortgage instruments and ARMs and short-term loans with balloon payments each held a 10 percent share. By late 1983, ARMs had doubled their market share to more than 20 percent of all firsts and they climbed to a peak share of more than one-third in mid- to late-1984 [See Table 3(a)].

By mid-year 1985, when effective rates on FRMs were still in the 12.1 to 12.6 percent range, ARMs accounted for 25 percent of all first loans. At that time, ARM effective rates averaged 10.5 to 11 percent. However, by early fall, effective rates on level payment, mortgage financing had fallen about 25 basis points to just below 12 percent and rates on adjustables had dropped

amortizing loans such as balloons and graduated payment mortgages (GPMs). One explanation for the seemingly low Panel estimates of the percent of loans that are ARMs is the larger base of the calculation. This difference will be explored further in the cross-sectional examination of the results for 1985.

The use of second mortgage instruments

The Panel data show that the relative use of fixed-rate second mortgages has steadily increased since late 1982, although this has been primarily at the expense of balloon loan financing.⁷ Interestingly, ARMs have gradually increased in use as a second instrument but there has been significant fluctuation in the relative use of the other loan types.

In the seconds market, the major competitor to the FRM has been the short-term balloon mortgage. Frequently, this type of instrument is used



about 35 basis points to about 10.4 percent. Although ARM rates actually fell further than those on FRMs during this period, they still lost market share to traditional "plain vanilla" loans.

The Federal Home Loan Bank Board figures for 1985 show ARMs at nearly 50 percent of conventional originations in early 1985. According to the FHLBB, this figure rose to 56 percent in June and then steadily declined to just below 50 percent by the end of the year. Of course, the base of this ratio is the number of conventional, first loans originated by the four major types of institutional lenders.

The base for the calculation of these market shares in the Panel data includes sellers and private investors as sources as well as FHA and VA loans, with the latter almost entirely the fixed-rate variety. Furthermore, the Panel provides information on nonfully

as a fixed-rate interest-only loan with the outstanding principal due at the end of a 3- to 5-year period. However, some balloon loans involve partial amortization as well. By the end of the summer 1982, FRMs and balloon loans held equal shares of the seconds market—each at 42 percent. However, by early 1983, the balloon loan became the dominant second mortgage instrument, reaching the apex of its share at 50 percent. Although balloons seemed to hold about 40 percent of the seconds market from late 1983 through fall 1984, by early 1985, their share dropped to about one-third. There was also a further drop to below 25 percent by fall 1985.

From late 1983 through 1984, traditional fully amortizing loans were the dominant instrument, holding about 45 percent of the seconds market.

continued

During that period, the most important reason for the increased share of FRMs was the easing in mortgage interest rates. These rate declines reduced the need for the below-market financing that sellers had been offering in the early 1980s.

Paralleling the trend for first mortgages, was an even stronger shift in favor of traditional fixed-rate financing. While ARM second loans reached a peak at just below 10 percent, in 1985, there was a substantially decreased use of most other types of instruments with junior financing. Clearly, there are not many below-market "creative" balloon seconds currently being originated. Furthermore, the most recent declines in mortgage rates ensure that the spring 1986 market should see an even larger increase in single-loan packages with FRMs.

However, the 1985 Panel data showed substantial divergence from this trend for two important types of second mortgage instruments. GPMs, which seemed to be virtually nonexistent since mid-1984, suddenly in-

creased in use in late 1985. A similar phenomenon occurred with land contracts. Certainly, the gradually declining interest rates and the growth in ARMs during the last couple of years account for the decline in GPMs, but the reason for the sudden increase in late 1985 is not clear at all. One suspects, however, that there probably have been some undermeasurement problems during the past couple of years associated with GPMs. Some "true" GPMs may have actually been confused with ARMs in the past or they could have been graduated payment ARMs (GPARMs) that were classified as ARMs.

Historically, land contracts have been used extensively in the upper Midwest. Perhaps the worsening agricultural recession and perceived higher financial risks in that region account for their recent increased use as second mortgage instruments.

Sources of first mortgage loans

Since the end of 1982, there have been some dramatic shifts in the sources of mortgage loans. At the end



of summer 1982, financial institutions accounted for only one in three firsts while assumptions were more than 40 percent of the market [Table 4(a)]. Furthermore, during this period, home sellers originated a substantial share of first loans amounting to nearly 20 percent of the market. However, the substantial drop in rates at the end of 1982 caused a doubling in the share for financial institutions, while tougher due-on-sale enforcement by thrifts lowered the use of assumptions to just more than 20 percent of first mortgages. The improved interest rate environment in 1983 also substantially reduced the willingness of sellers to originate loans.

By early summer 1984, when rates on traditional mortgage loans were moderately higher than they were at the end of 1983, adjustables were marketed at contract rates that were about 130 basis points below those on traditional, 30-year loans. Thus, institutions were actually able to increase their relative market share to just under three-fourths of all first mortgages used in home financing. Furthermore, during this period, assumptions declined to under 20 percent of the market due to the combination of due-on-sale enforcement and the initial interest rate attractiveness of many ARM offerings. In response to these factors, the share of firsts for sellers also tended to drop slightly during the

TABLE 4

Trends in the Sources of Mortgage Loans

4(a) First Mortgage Loans (Percentage Distributions on Sources)								
Source	Oct. 1985	Jul. 1985	Apr. 1985	Oct. 1984	Jun. 1984	Sept. 1983	Apr. 1983	Aug. 1982
Commercial Banks	10	11	10	10	7	9	10	8
Thrifts**	26	30	27	30	28	30	23	13
Mortgage Bankers	45	42	40	32	39	27	29	12
Assumptions	9	10	15	18	17	22	22	41
Sellers	4	4	5	8	6	8	10	18
Other***	6	3	3	2	3	4	7	8
	100	100	100	100	100	100	100	100

4(b) Second Mortgage Loans (Percentage Distributions on Sources)								
Source	Oct. 1985	Jul. 1985	Apr. 1985	Oct. 1984	Jun. 1984	Sept. 1983	Apr. 1983	Aug. 1982
Commercial Banks	10	5	8	12	5	9	2	4
Thrifts	5	7	8	15	10	9	9	7
Mortgage Bankers	8	8	10	9	12	8	9	9
Assumptions	*	4	2	4	6	7	10	11
Sellers	71	64	58	55	56	57	58	65
Other***	6	12	14	5	15	10	12	4
	100	100	100	100	100	100	100	100

* Less than 1 percent.

** Savings and loan associations and mutual savings banks.

*** Includes private investors, friends, relatives, etc.

same time frame.

The early spring market in 1985 saw effective interest rates on institutional FRMs holding at about the same level that they were the year before. Effective rates on ARMs were about 25 to 50 basis points below what they were a year earlier. However, from the middle of the summer, mortgage rates for both types of instruments fell steadily throughout the remainder of 1985 and this decline continued well into 1986. During this period, financial institutions pushed their share of firsts to exceed 80 percent of the market, while assumptions and sellers declined to half the proportion that they held at the end of 1984.

The Panel data show that commercial banks provided a relatively con-

stant 10 percent of first mortgage loans during the last three years, while the share from thrifts has ranged from 13 to around 30 percent. These data also identify significant fluctuations in the market share of firsts from mortgage bankers—a figure varying from 27 percent in late 1983 and 45 percent by late 1985. Since 1985, mortgage bankers have been the dominant provider of first mortgage loans in the Panel samples, while the HUD figures have usually shown thrifts holding a larger share of loan volume than mortgage bankers.

Sources of second mortgage loans

Currently, second mortgages are not frequently used in home financing transactions. However, they were

used in about one in four home sales in late 1982. In 1984 and 1985, they were used, at most, in about one in ten sales.

Traditionally, home sellers have originated 50 to 65 percent of second loans, with financial institutions accounting for about 25 percent of the market [Table 4(b)]. When an existing mortgage note that was originally made by an institution is assumed, the terms of the loan usually require it to become the first lien on the property. Because of this requirement, we can expect a low relative percentage share of assumptions as second loans. Although there has been some variation in this share, it has never exceeded 11 percent in the Panel surveys. In late 1985, sellers were supplying more than 70 percent of second loans but financial institutions provided just more than 20 percent. This very high percentage for sellers seems to deviate somewhat from the established trend and could reflect some inaccuracies in reporting. However, the low frequency of two and three loan packages leads us to suspect that this large percentage for sellers is most likely due to small sample bias.

In 1985, on average, mortgage companies (next to sellers) were the second most frequently used source of second loans. However, the institutional share of seconds has varied substantially during the past three years. Mortgage bankers have consistently supplied 8 to 10 percent of all seconds during the past three years while thrifts have supplied 5 to 10 percent of these loans. At the end of 1982 and in early 1983, commercial banks were supplying from 4 to 9 percent of all second loans but their share was in the 5 to 10 percent range during the past year.

The following analysis focuses exclusively on the 1985 Panel data, combining the responses for the March/April, June/July and September/October periods into a single data base. By combining the three periods, the sample exceeds 2,300 home sales (guaranteeing at least 2,200 first mortgages) and provides a more accurate statistical picture of the sources and instruments used in the marketplace during the past year. However, because second mortgages were used in only about 7 percent of all transactions, this

TABLE 5

Joint Distribution of First Mortgage Instruments and Sources: Combined 1985 Sample Periods (Percentages)

Source	Instrument							Total Sources
	FRM	ARM	GPM	Land Contract	Wrap	Balloon	Other**	
Commercial Bank	6	3	*	*	0	*	*	10
Thrift	16	10	*	*	0	*	*	27
Mortgage Banker	33	8	1	0	*	0	*	42
Assumption	10	1	*	0	*	*	1	12
Seller	2	*	*	1	*	1	0	5
Other***	3	*	*	*	*	*	*	4
Total Instruments	70	22	2	1	1	2	2	100

* Less than one percent.

** Includes equity participation loans and other nonstandard instruments.

*** Includes private investors, friends, relatives, etc.



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group is too small for meaningful cross-sectional examination. As a result, the focus is further narrowed to instruments and sources of first mortgage loans. Table 5 provides a joint frequency distribution of the sources of loans and the instruments used for the three combined periods. This joint distribution allows determination of the relative origination sources for first mortgage instruments.

Proportionally, mortgage bankers appeared to be the primary source of first mortgage loans, contributing more than 40 percent of the entire market. Mortgage bankers contributed almost one-half of all FRMs (47 percent) and more than one-third of all ARMs (36 percent). ARMs accounted for about 20 percent of all mortgage banker originations in 1985. Thrifts contributed more than one-fourth of all loans but they provided only half as many fixed-rates as mortgage companies (23 percent). Overall, thrifts were more likely to provide ARMs than were mortgage companies, supplying 45 percent of all adjustables. ARMs accounted for just under 40 percent of all thrift first loan originations. The

FHLBB data for the panel months in 1985 (See Table 1) indicate that ARM loans averaged 50 to 55 percent of conventional firsts from institutions. The Panel estimate indicates that they were only about 28 percent of institutional originations of FRMs and ARMs (21 percent of 79 percent).

In 1985, commercial banks accounted for only about 10 percent of all first mortgages with a roughly two-to-one split between fixed-rate loans and ARMs. Interestingly, assumptions accounted for about 12 percent of firsts (larger than the commercial bank share) and, not surprisingly, almost all were of the fixed-rate variety. Sellers only provided 5 percent of first mortgages in 1985 and a majority of them were in the form of either fixed-rate fully amortizing loans, land contracts or balloon loans.

Mortgage Instruments and loan sources by market segments

In analyzing these markets, it is interesting to examine the relative sources of loans and uses of instruments by various segments of the market. The segments to be examined in-

clude conventional loans (no Federal Housing Administration (FHA) or Veterans Administration (VA) loans included), new conventional loans (no FHA, VA or assumptions included), new conventionals from institutions (no sellers or "others" included) and FHA-insured and VA-guaranteed loans as a separate market segment. Performing this type of analysis is useful in order to examine how the base of the comparison affects the measurement of the relative use of a particular type of instrument or source. Table 6 provides a breakdown of the data by the specified submarket segments. The most important results for these submarkets are:

- **Conventional Loans**—FRMs accounted for more than 60 percent of these loans while ARMs made up about 30 percent of the market. GPMs and balloon instruments contributed an additional 5 percent.
- **New Conventional Loans**—Because a large proportion of assumptions were FHA or VA loans, there was virtually no difference between the results for all conventionals and new conventionals.

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TABLE 6

**First Mortgage Instruments Used in 1985:
All Loans, Conventional and FHA/VA Submarkets
(Percentage Distributions)**

Instruments	All Loans	Conventional			FHA/VA Only
		All Sources	New Originations	New from Institutions	
FRM	70	61	59	61	94
ARM	22	30	32	35	1
GPM	2	2	2	1	2
Land Contract	1	2	2	*	0
Wraparound	1	*	1	*	1
Balloon	2	3	3	1	0
Other	2	2	1	2	2
	100	100	100	100	100

* Less than 1 percent.

TABLE 7

**Joint Distribution of First Mortgage Instruments:
New Originations from Financial Institutions in 1985
(Percentages)**

Instrument	Thrifts	Mortgage Bankers	Commercial Banks	Total Instruments
FRM	25	26	10	61
ARM	18	13	4	35
GPM	*	1	*	1
Other**	1	1	1	3
Total Sources	44	41	15	100

* Less than 1 percent.

** Includes land contracts, wraparounds, balloons, etc.

▪ **FHA/VA Loans**—As would be expected, FRMs accounted for almost 95 percent of FHA/VA loans. GPMs, the second most frequently used instrument, contributed 2 percent of FHA/VA firsts. The Panel data indicate ARMs (i.e., the FHA ARM) were only about 1 percent of firsts. This seems reasonable given the difficulties in achieving volume in the FHA ARM program.

▪ **New Conventionals from Institutions**—For this segment, FRMs were just more than 60 percent and ARMs accounted for 35 percent of the market. Table 7 provides a further breakdown for the three classes of institutional originators: thrifts, mortgage bankers and commercial banks. Thrifts accounted for 44 percent of new conventionals and mortgage bankers contributed 41 percent. Although both thrifts and mortgage bankers seem to be contributing the same relative proportion of FRMs, the former originated roughly half of all new conventional ARMs. Mortgage bankers contributed more than one-third of that market.

SUNBELT NATION

Examining new conventional firsts from financial institutions, the Panel data indicate that ARMs were between one-third and 40 percent of the 1985 market. This figure is significantly below the average of the FHLBB monthly estimates. The FHLBB figures for the 1986 spring months showed this percentage to be dropping to below 30 percent, causing some lenders to vary the fees and loan amounts on adjustables to make them more attractive.⁶ However, assuming the sample is more heavily weighted toward thrifts than mortgage bankers (and a few very large mortgage bankers), it is quite possible that the "true" ARM market share for conventionals from all institutions was closer to 40 percent in 1985. While the Panel data probably contain some classification errors with regard to the institutional source, these results strongly indicate that ARM loans accounted for considerably less than one-half of new conventional originations in the marketplace. Because traditional fixed-rate loans have clearly been the dominant instrument during the past two years, the continuing fall in long-term rates

TABLE 8

**Sources of First Mortgage Instruments in 1985:
All Loans, Conventional and FHA/VA Submarkets (Percentage Distributions)**

Source	All Loans	Conventional			FHA/VA Only
		All Sources	New Originations	New from institutions	
Commercial Bank	10	13	14	16	2
Thrift	27	35	39	44	7
Mortgage Banker	42	32	36	40	70
Assumption	12	10	NA	NA	18
Seller	5	6	7	NA	NA
Other*	4	4	4	NA	3
	100	100	100	100	100

* Includes private investors, friends, relatives, etc. NA: Not appropriate

TABLE 9

Joint Distribution of FHA and VA First Mortgage Instruments and Sources in 1985 (Percentages)

Source	FRM	ARM	GPM	Other***	Total Sources
Commercial Bank	1	1	0	0	2
Thrift	6	1	*	1	8
Mortgage Banker	66	*	2	1	69
Assumption	17	0	*	1	18
Other**	3	0	0	*	3
Total Instruments	93	2	2	3	100

* Less than 1 percent.

** Sellers and individual private investors cannot originate FHA or VA loans.

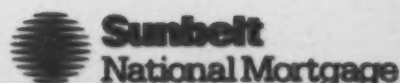
*** This category indicates some loans have been misclassified because FHA loans are either FRMs, ARMs or GPMs. VA loans are usually always FRMs, although there are programs for GPMs and growing equity loans (GEMs). VA loan volume in the latter two areas has been less than 1 percent during the past year.

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will probably enhance its share for the 1986 market. Even ARM contract rate quotes in the mid-7 to 8 percent range, which were present last spring, probably will not significantly slow the trend toward growth in FRM market share.

The FHA and VA market—sources and instruments

While thrifts are the primary source of conventional ARMs, mortgage bankers are the overwhelmingly largest provider of FHA-insured and VA-guaranteed first mortgage loans. Table 9 aptly demonstrates this through a joint frequency distribution for instruments and sources of FHA and VA loans. Overall, the Panel figures show that mortgage bankers originated almost 70 percent of FHA and VA loans in 1985, while thrifts originated under 10 percent. However, the thrift figure is probably slightly underestimated and the mortgage banker proportion is probably overestimated. According to the Panel figures, assumptions of fixed-rate loans accounted for below 20 percent of 1985 FHA and VA first mortgages, while ARMs and GPMs

were each about two percent of this market. This table also shows that more than 3 percent of the respondents misclassified FHA or VA first mortgages as "other" types of instruments.

The Residential Mortgage Finance Panel data are a useful source of information for detailed analyses of the characteristics of mortgage instruments and their sources, as well as information on the homebuyers and their properties. The data base can provide a reasonably accurate, timely and consistent "micro" view of mortgage financing techniques used in home sales.

While there are some minor inconsistencies and misclassification problems associated with selected subgroups of the data, careful editing of the survey questionnaires can minimize these problems. Compared to other sources, the data base may tend to underrepresent thrifts. However, bench marking with other data sources may help to correct any inaccuracies in the future.

N.A.R. is making this data available (on IBM compatible floppy diskettes)

to the public for a moderate fee. Any suggestions, comments or inquiries are welcome and can be directed to: Frederick E. Flick, N.A.R., 777 14th St. N.W., Washington, D.C. □

1. Estimates of these mortgage terms for the first week of a prior month are published within the first week of the month in *Federal Home Loan Bank Board News*. These figures for 1982-1984 are presented in three-month groupings around the month in which a NAR mortgage finance survey was fielded. Because rates on loans closed during a period are often based on prior month commitments, it is useful to refer to the prior month rate to explain current month market rates.
2. Published monthly, quarterly and annually as the "Survey of Mortgage Lending Activity," a news release from the Office of Public Affairs of the U.S. Department of Housing and Urban Development.
3. See *Residential Finance*, HC80-5, 1980 Census of Housing, Volume 5, Bureau of the Census, U.S. Department of Commerce, November 1983.
4. The bond market research department at Salomon Brothers Inc. publishes the *Biweekly Mortgage Market Roundup*, as well as specific reports covering mortgage prepayments, developments in housing and mortgage finance, rate of return indexes and various aspects of mortgage securitization and securitization. The mortgage securities unit at Shearson Lehman Brothers, Inc. publishes *Mortgage Finance Marketplace* on a monthly basis, as well as specialized publications on topics dealing with mortgage securities.
5. Fannie Mae and Freddie Mac routinely publish information on the volume of loans purchased, securities issued, primary and secondary market rates and yields and related operational data. Freddie Mac also publishes research and analysis through its monthly *Freddie Mac Reports* and the *Secondary Mortgage Markets* quarterly.
6. Prior to 1984, similar data was collected from random samples of the membership as a special mortgage finance survey and as part of biennial surveys of member attitudes on policy issues and NAR programs. The number of responses from these surveys was roughly equivalent to that of the Panel, however, mailings to randomly selected members were typically in the 5,000 to 7,000 range.
7. These second mortgage loans were originated for the purpose of purchasing property, not to access existing home equity for consumer purchases.
8. Kathleen A. Hughes, "Banks Cut Fees on ARM Loans As Appeal Fades," *The Wall Street Journal*, April 4, 1986, p. 23.

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MORTGAGE MARKET TRENDS

Recent economic news continues to demonstrate weakness in the industrial sector. Nonfarm payroll employment increased only 150,000 in May, as further substantial job losses occurred in both manufacturing and mining. Industrial production was down 0.6 percent in May 1986, with declines widespread by category of output.

The weakness in the industrial sector stems from three principal sources—reductions in output to bring inventories into better balance with sales, particularly in the auto industry; sharp further declines in oil and gas drilling activity and relatively soft markets for some categories of business equipment, especially computers and related equipment.

In contrast to developments in the industrial sector, residential construction is exhibiting exceptional strength. Housing starts in May declined 7½ percent to an annual rate of 1.9 million units. The decline was entirely in multi-family structures and may reflect the negative effects of expected passage of a tax reform bill. Nonetheless, total housing starts in May were 11½ percent above a year earlier and anecdotal evidence suggests that single-family homes are still being purchased faster than they can be built.

Consumer spending is also relatively strong. Real personal consumption expenditures rose at nearly a 4 percent annual rate in the first quarter and increased further in April. In May, unit auto sales increased and real retail sales outside of autos probably held close to their April levels. MBA believes real personal consumption expenditures in the second quarter will show another increase of 4 percent or more at an annual rate.

These elements of strength in residential construction and consumer spending will tend to offset the decline occurring in the second quarter in inventory investment and oil drilling activity. Nevertheless, real GNP growth this quarter will probably be around a 2 to 2½ percent annual rate, below the downward-revised 2.9 percent figure of the first quarter.

The producers price index for May rose 0.6 percent—the first increase for any month this year. Rising prices of food and energy were principally responsible. Energy price declines are now largely behind us and food prices have risen because of drought conditions in some of the fruit- and vegetable-growing areas of the country. Outside of food and energy, the increase was just 0.2 percent, about the same as the average monthly rise during the first four months of the year.

The inflation fundamentals, however, still look quite good. Markets for labor and products are still very competitive; wage rate increases are not getting larger and businesses encounter buyer resistance when they seek to widen

profit margins by raising prices. Productivity growth is still poor but MBA sees no evidence that the trend of cost increases—which is the basic determinant of prices—has begun to worsen.

The markets for fixed-income securities have recently begun to display a better tone, following nearly two months of apprehension and substantial volatility of bond prices and yields. Weakness in the industrial sector has quieted concerns that the Federal Reserve might soon be moving toward a less accommodative posture of monetary policy.

Forecasts for the second half are now being revised downward by many forecasters. The evident weakness in the industrial sector has raised questions about the strength of the underlying expansive forces. MBA shares these concerns. Nevertheless, MBA believes that a pickup in the annual rate of economic growth to the 3½ to 4 percent range is likely in the second half. The strength of consumer demand in the second quarter should eliminate fairly soon the overhang of unwanted inventories, so that nonfarm inventory investment should turn up in the second half. Net exports, in real terms, should also improve modestly as the year goes on and the boom in single-family housing is expected to continue as a major source of strength. Business fixed investment will continue to be weak, but an end to the steep fall of oil drilling activity should permit a modest increase in this key sector of the economy during the second half.

As noted earlier, the anti-inflationary benefits of falling oil prices are waning. Also, rising import prices are now beginning to influence the domestic inflation rate. Therefore, a return of consumer price inflation to the 4 percent range is likely by late this year, but it would not signal any basic worsening of underlying inflationary forces.

For some time, MBA has been expecting only a moderate rise in interest rates as the economy picks up later this year. Belief in that forecast has been strengthened by the high probability that tax reform will pass. Both the Senate and House bills would reduce incentives to invest significantly, thereby tending to hold down the cyclical rise in interest rates that would otherwise occur.

Indeed, speculation has developed recently that another discount rate cut may soon be forthcoming. The Federal Reserve may be reluctant to take such a step unless at least one other large industrial country goes along. Japan is the most logical candidate. MBA would not be surprised to see a cut in the Bank of Japan's discount rate during the next few weeks followed by a similar action in the U.S.

Lyle E. Gramley
Chief Economist
June 19, 1986

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

HOUSING STARTS

PERMITS 17,000 ISSUING PLACES

YEAR AND MONTH	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1985												
NOV	125	80	45	1,654	1,082	572	120	74	47	1,668	1,039	629
DEC	115	71	44	1,882	1,181	701	128	68	60	1,839	1,077	762
1986												
JAN	116	79	37	2,034	1,442	592	119	74	45	1,861	1,187	674
FEB	107	71	36	2,001	1,317	684	684	68	41	1,808	1,155	653
MAR	149	103	46	1,930	1,289	641	152	99	53	1,834	1,150	684
APR	188	129	59	2,009	1,346	663	180	125	55	1,883	1,226	657
1985 TOTAL	1,741	1,165	576				1,733	1,077	657			
1984 TOTAL	1,750	1,206	544				1,682	1,065	617			
4 MONTHS												
1986	560	382	178				561	365	196			
1985	521	354	167				518	331	186			
1984	546	384	162				558	362	196			
1983	458	327	131				452	298	154			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

STARTS

PERMITS 17,000 ISSUING PLACES

YEAR AND MONTH	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	Mid- West	South	West	North East	Mid- West	South	West	North East	Mid- West	South	West	North East	Mid- West	South	West
1985																
NOV	20	17	57	30	235	210	767	442	21	16	52	32	268	206	725	469
DEC	17	13	57	34	283	261	870	468	19	17	62	30	263	271	844	461
1986																
JAN	14	10	62	29	350	318	909	457	14	12	58	34	290	314	767	490
FEB	13	11	51	33	404	370	745	482	12	12	53	32	287	306	743	472
MAR	20	21	69	39	326	338	753	503	21	20	64	46	276	287	718	553
APR	30	32	79	50	329	356	802	520	29	32	69	49	303	325	721	528
1985 TOTAL	252	240	782	468					260	237	753	484				
1984 TOTAL	204	243	866	436					201	212	812	457				
4 MONTHS																
1986	76	73	258	152					76	76	247	162				
1985	59	54	261	148					70	55	243	150				
1984	44	56	303	146					51	57	293	157				
1983	40	45	274	100					39	43	266	104				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES ¹	NEW HOMES			Seasonally Adjusted Annual Rate				Seasonally Adjusted Annual Rate Under Construction			Completions		
		Sold	Avail- able For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non- res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1985														
NOV	246	51	357	6.0	\$205.1	\$86.0	\$29.2	\$89.9	1,087	627	460	143	100	43
DEC	219	47	350	5.7	210.4	86.6	29.9	93.9	1,089	618	471	162	113	49
1986														
JAN	213	54	351	6.0	211.2	89.0	29.7	92.5	1,094	628	466	122	81	41
FEB	218	59	345	5.9	214.2	92.1	29.8	92.3	1,110	638	472	118	76	42
MAR	280	87	334	4.7	210.3	91.9	30.9	87.5	1,100	627	473	134	93	41
APR	NA	81	334	4.7	213.3	94.4	32.6	86.3	1,134	641	492	129	95	34
1985 TOTAL	3,214	688										1,703	1,167	534
1984 TOTAL	2,868	639										1,652	1,137	515
4 MONTHS														
1986	*711	282										503	345	158
1985	645	231										492	338	154
1984	643	234										468	322	146
1983	555	206										338	247	91
*3 Month Totals														

LENDER ACTIVITY LONG-TERM MORTGAGE LOANS CLOSED By Type of Institution and By Unit Type (Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.
1985										
JUN	\$33,017	\$5,869	\$12,665	\$12,370	\$2,113	\$21,151	\$5,286	\$9,551	\$6,232	\$82
JUL	31,407	6,503	11,709	11,051	2,144	21,273	5,969	9,093	6,110	101
AUG	34,928	7,792	13,324	11,832	1,980	25,518	7,028	10,996	7,390	104
SEP	35,188	7,422	13,316	12,346	2,104	24,104	6,963	10,483	6,541	117
OCT	36,525	6,548	14,014	13,288	2,675	24,450	6,104	11,032	7,208	106
NOV	32,964	5,660	12,363	11,888	2,965	21,142	5,300	9,367	6,400	94
1984 TOTAL	295,062	50,816	129,482	97,776	16,988	199,228	47,589	96,187	54,626	826
1983 TOTAL	274,751	63,430	103,882	91,500	15,939	197,617	59,762	81,524	55,605	726
11 MONTHS										
1985	325,757	62,335	129,453	111,684	22,285	218,660	57,500	99,185	61,062	913
1984	266,922	46,279	118,863	88,361	13,419	183,239	43,384	89,273	49,836	746
1983	247,709	57,539	93,329	84,040	12,801	180,773	54,164	74,083	51,902	624
1982	113,112	26,175	36,990	43,139	6,808	79,226	23,759	30,005	24,986	476

LENDER ACTIVITY (Cont'd.)

LOANS CLOSED (Cont'd.)

(Dollars in millions)

5+ UNITS

NONRESIDENTIAL

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.
1985										
JUN	\$2,519	\$ 418	\$1,417	\$590	\$94	\$9,347	\$165	\$1,697	\$5,548	\$1,937
JUL	1,804	53	974	604	173	8,330	481	1,642	4,337	1,870
AUG	2,201	239	1,085	665	212	7,209	525	1,243	3,777	1,664
SEP	2,202	287	1,099	656	160	8,882	172	1,734	5,149	1,827
OCT	2,694	150	1,456	700	388	9,381	294	1,526	5,380	2,181
NOV	2,685	153	1,401	756	245	9,137	277	1,605	4,630	2,610
1984 TOTAL	20,588	443	13,160	5,519	1,466	75,246	2,784	20,135	37,631	14,696
1983 TOTAL	16,169	566	8,521	5,485	1,597	60,965	3,102	13,837	30,410	13,616
11 MONTHS										
1985	22,986	2,122	12,669	6,151	2,044	84,111	2,713	17,599	44,471	19,328
1984	18,138	401	11,672	5,031	1,034	65,545	2,494	17,918	33,494	11,639
1983	14,036	553	7,525	4,660	1,298	52,900	2,822	11,721	27,478	10,879
1982	5,761	901	2,566	1,929	365	28,125	1,515	4,419	16,224	5,967

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

ISSUED DURING MONTH

OUTSTANDING

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.	Total	Mtg. Bankers ⁹	S&Ls	Banks ²	Life Cos.
1985										
JUN	\$28,091	\$5,731	\$14,174	\$5,385	\$2,801	\$105,354	\$13,116	\$56,079	\$19,126	\$17,033
JUL	27,791	5,686	14,594	4,928	2,583	99,706	14,684	49,838	17,882	17,302
AUG	32,123	6,588	16,969	5,434	3,132	103,290	14,190	50,198	20,243	18,659
SEP	30,531	6,123	16,055	6,094	2,504	114,357	15,205	50,579	29,268	18,980
OCT	29,039	4,208	16,134	5,775	2,922	110,307	12,436	49,882	29,100	18,889
NOV	29,343	6,636	13,967	5,476	3,264	112,862	12,237	49,249	32,014	19,165
1984 TOTAL	249,401	70,128	146,184	47,065	20,844					
1983 TOTAL	258,986	44,893	123,361	38,195	17,717					
11 MONTHS										
1985	295,373	53,497	155,874	56,741	29,261					
1984	238,436	41,090	135,312	43,255	18,779					
1983	229,963	65,006	113,345	35,210	16,402					
1982	100,892	37,572	39,102	17,483	6,735					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

APPLICATIONS RECEIVED

(Units)

LOANS INSURED

YEAR AND MONTH	APPLICATIONS RECEIVED				LOANS INSURED							
	Total	FHA ³	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1985												
NOV	173	78	27	68	128	\$8,488	47	\$2,795	25	\$1,693	56	\$4,000
DEC	163	80	22	61	93	6,319	23	1,359	19	1,347	51	3,613
1986												
JAN	205	130	24	51	110	7,298	45	2,659	19	1,304	46	3,335
FEB	211	136	25	50	97	6,594	45	2,773	18	1,242	34	2,579
MAR	305	211	33	61	115	7,752	57	3,477	23	1,621	35	2,654
APR	379	270	32	77	105	7,354	47	2,930	18	1,290	40	3,116
1985 TOTAL	2,194	902	251	1,041	1,261	83,305	338	19,784	192	13,046	731	50,475
1984 TOTAL	1,862	477	180	1,205	1,344	86,775	200	10,644	198	12,728	946	63,403
4 MONTHS												
1986	1,100	747	114	239	428	28,999	195	11,849	78	5,466	155	11,684
1985	635	247	64	324	367	23,687	92	5,215	51	3,360	224	15,112
1984	631	172	75	384	448	28,302	85	4,535	86	5,309	277	18,458
1983	627	305	116	206	292	17,303	94	4,808	65	4,025	133	8,470

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA				FHLMC				GNMA	
	Portfolio		Mortgage-Backed Securities		Comm. to Sell	Comm. to Buy	Mtg. Purc.	Mtg. Sold	Pass-Through Securities	
	Comm.	Purc.	Outstanding	Issued					Applications	Issued
1985										
NOV	\$1,199	\$1,624	\$52,198	\$2,469	\$5,394	\$4,854	\$3,681	\$3,449	\$6,059	\$5,251
DEC	1,858	1,663	54,987	3,365	3,076	3,425	6,095	6,335	5,699	4,520
1986										
JAN	1,315	1,188	58,391	3,964	4,880	5,273	3,709	3,300	10,103	5,298
FEB	2,578	1,159	60,752	2,978	5,526	6,044	4,605	4,268	5,973	5,006
MAR	1,917	1,410	62,310	2,260	7,213	7,128	5,318	5,900	14,853	5,059
APR	3,774	1,631	64,171	2,835	NA	NA	NA	NA	13,346	6,900
1985 TOTAL	20,225	21,510	—	23,649	30,743	32,601	21,885	20,489	36,101	27,857
1984 TOTAL	21,007	16,721	—	13,546	30,921	32,846	22,952	21,376	70,280	50,496
4 MONTHS										
1986	9,584	5,388	—	12,037	*17,619	*18,477	*13,632	*13,468	44,265	22,466
1985	6,751	7,273	—	5,676	9,972	11,339	8,676	7,523	14,742	10,684
1984	6,889	6,597	—	4,284	4,650	4,729	4,098	3,184	12,266	10,217
1983	4,998	6,076	—	5,131	4,260	4,365	6,016	5,866	24,818	15,881

*3 Month Totals

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES						APARTMENTS ⁵	
	FHA OPINION SURVEY			FHLBB SURVEY		FNMA		
	FHA NEW ⁴	CONVENTIONAL New	CONVENTIONAL Existing	CONVENTIONAL New	CONVENTIONAL Existing	1 Yr. ARM (1%/Yr.)	FRM Conv.	
1985								
DEC	10.70%	11.03%	11.03%	10.94%	11.12%	9.94%	10.425%	12.06%
1986								
JAN	10.78	10.82	10.93	10.89	10.81	10.00	10.375	12.00
FEB	10.59	10.49	10.50	10.68	10.83	9.89	10.269	11.63
MAR	9.77	10.06	10.10	10.50	10.62	9.04	9.494	11.09
APR	9.80	9.99	9.99	10.27	10.37	8.49	9.300	10.84
MAY ^p	NA	NA	NA	10.19	10.16	8.70	9.663	10.81

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS			SELECTED SECURITIES			
	GNMA ⁶	FNMA ⁶	FHLMC ⁶	A-Rated ⁷ Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1985							
DEC	10.02%	NA	NA	10.91%	9.26%	7.14%	7.75%
1986							
JAN	9.99	10.18	10.22	10.74	9.19	7.16	7.71
FEB	9.75	9.90	9.95	10.21	8.70	7.11	7.63
MAR	9.05	9.23	9.27	9.41	7.78	6.57	7.20
APR	9.01	9.08	9.12	9.26	7.30	6.08	6.60
MAY ^p	9.33	NA	NA	9.50	7.71	6.19	6.63

YEAR AND MONTH	SPREADS (Basis Points)			
	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1985				
DEC	(21)	76	NA	NA
1986				
JAN	4	80	99	103
FEB	38	105	120	125
MAR	36	127	145	149
APR	54	171	178	182
MAY ^p	NA	162	NA	NA

NA—Not available, p—Preliminary

¹From the National Association of Realtors "Existing Home Sales" series

²Mutual Savings Banks and Commercial Banks

³FHA applications received includes the Direct Endorsement Program starting in 1984.

⁴Secondary market gross yields.

⁵Federal Home Loan Mortgage Corp. Existing Construction only.

⁶Securities for 0 to 30 day delivery.

⁷Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

⁸Year-to-date seasonally adjusted series not calculated.

⁹1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED¹

NOT SEASONALLY ADJUSTED

SEASONALLY ADJUSTED

YEAR AND MONTH	1-4 Units				5+ Units				Non- ³ res.	SEASONALLY ADJUSTED			
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.		Total ²	1-4 Units	5+ Units	Non- ³ res.
1984													
JUL	\$ 3,760	\$ 3,330	\$ 800	\$ 530	\$ 2,000	\$ 0	\$ 0	\$ 0	\$ 430	\$3,530	\$2,960	\$ 0	\$460
AUG	3,570	3,070	520	380	2,170	0	0	0	500	3,120	2,600	0	510
SEP	3,050	2,400	550	380	1,470	70	70	0	580	3,380	2,500	120	780
OCT	3,700	3,110	820	470	1,820	0	0	0	590	3,600	2,920	0	750
NOV	3,370	3,090	820	470	1,800	0	0	0	280	3,890	3,610	0	280
DEC	5,250	4,090	1,280	690	2,120	80	0	80	1,060	4,580	3,980	70	770
1983 Total	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1984 Total	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
12 MONTHS ⁵													
1984	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
1983	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1982	29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230				
1981	33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910				

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS¹

COMMITMENTS DURING MONTH

OUTSTANDING COMMITMENTS END OF MONTH

YEAR AND MONTH	To Borrowers				From Investors				To Borrowers			From Investors		
		1-4	5+	Non- ³		1-4	5+	Non- ³	1-4	5+	Non- ³	1-4	5+	Non- ³
	Total	Units	Units	res.	Total	Units	Units	res.	Units	Units	res.	Units	Units	res.
1984														
JUL	\$ 4,060	\$ 2,940	\$ 0	\$ 1,120	\$ 4,050	\$ 3,580	\$ 20	\$ 450	\$10,840	\$ 70	\$570	\$9,870	\$250	\$1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	690	6,940	270	1,050
DEC	5,480	4,090	430	960	4,150	3,910	80	160	7,150	100	750	7,110	280	1,170
1983 TOTAL	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1984 TOTAL	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
12 MONTHS ⁵														
1984	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

OUTSTANDING END OF MONTH INVENTORY¹

YEAR AND MONTH	1-4 Units				5+ Units				Non-res. ³
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	
1984									
JUL	\$8,870	\$6,990	\$1,480	\$1,090	\$4,420	\$730	\$0	\$730	\$1,150
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140
DEC	6,840	6,090	1,500	980	3,610	170	0	170	580

MORTGAGE BANKING ACTIVITY (Cont'd.)

YEAR AND MONTH	COVERAGE ⁴			SERVICING VOLUME ¹				NOTES PAYABLE ¹ (End of Month Balances)			
	1-4 Units	5+ Units	Non- ³ res.	Total	1-4 Units	5+ Units	Non- ³ res.	Total	Comm. Paper	To Banks	To Others
1984											
JUL	55%	31%	91%	\$421,420	\$317,600	\$63,980	\$39,840	\$41,960	\$6,190	\$12,710	\$23,060
AUG	60	31	113	363,570	282,400	42,060	39,110	47,940	5,750	13,220	28,970
SEP	58	51	45	381,070	302,840	39,300	38,930	59,220	4,520	14,240	40,460
OCT	60	48	45	417,780	339,960	40,660	37,160	57,230	4,830	17,070	35,330
NOV	51	43	57	422,490	350,580	39,790	32,120	54,180	4,820	19,180	30,180
DEC	56	56	88	385,270	321,620	33,110	30,540	42,280	5,990	23,690	10,210

CONSTRUCTION AND LAND LOAN ACTIVITY¹

YEAR AND MONTH	CONSTRUCTION LOANS CLOSED				DISBURSEMENTS DURING MONTH				END OF MONTH INVENTORY					
		1-4	5+	Non- ³		1-4	5+	Non- ³	Land		1-4	5+	Non- ³	Land
	Total	Units	Units	res.	Total	Units	Units	res.	Loans	Total	Units	Units	res.	Loans
1984														
JUL	\$790	\$130	\$210	\$450	\$280	\$ 70	\$10	\$200	\$180	\$2,760	\$ 900	\$240	\$1,620	\$1,120
AUG	410	110	130	170	100	60	0	40	90	2,200	790	190	1,220	830
SEP	440	100	160	180	100	50	10	40	120	2,150	790	180	1,180	800
OCT	400	210	100	90	90	40	10	40	130	2,180	780	220	1,180	870
NOV	210	140	50	20	170	110	20	40	240	3,520	1,380	410	1,730	2,260
DEC	470	270	120	80	430	220	30	180	470	9,240	3,790	790	4,660	3,490

COMMITMENTS TO BORROWERS: AND LAND CONSTRUCTION LOANS¹

YEAR AND MONTH	ISSUED DURING MONTH				END OF MONTH BALANCES			
	Total	1-4 Units	5+ Units	Non- ³ res.	Total	1-4 Units	5+ Units	Non- ³ res.
1984								
JUL	\$1,730	\$130	\$ 60	\$1,540	\$4,090	\$870	\$470	\$2,750
AUG	770	190	80	500	3,680	850	460	2,370
SEP	760	100	80	580	4,170	760	580	2,830
OCT	710	150	160	400	3,820	860	590	2,370
NOV	380	140	70	170	3,230	680	430	2,120
DEC	790	200	10	580	3,910	930	280	2,700

Notes: ¹ All dollar amounts are in millions.

² Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

³ Series labeled non-residential are also inclusive of farm data.

⁴ Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

⁵ Year-to-date seasonally adjusted series not calculated.